

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

1 May 2014

Agenda Item	5
Report No	VAL 7/14

Internal Audit Reports

Report by Head of Internal Audit & Risk Management, Highland Council

Summary

This report summarises the Final Reports issued since that last reported to the meeting of 21st November 2012. In addition, details are provided of the audits included within the 2014/15 audit plan.

1. Internal Audit Reports

- 1.1 The Statement on Internal Control 2012/13 was provided to the Board on 29/08/13 and the audit opinion stated that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control systems for the year to 31st March 2013. In order to provide this opinion, an audit was undertaken of the Assessor's systems of internal control. In addition, an audit has also been undertaken of the Council Tax and NNDR Valuation Arrangements.

The table below details the audits undertaken and their corresponding audit opinion, and copies of the report summaries and action plans are attached. Details of the definitions which support the audit opinion are provided at **Appendix 1**.

Audit	Report Date	Audit Opinion
Assessor – Matters Arising from the Statement of Internal Control 2012/13	22/04/14	Substantial Assurance
Council Tax and NNDR Valuation Arrangements	23/04/14	Substantial Assurance

- 1.2 There is still one audit outstanding from the 2013/14 audit plan of work which relates to a review of Accounts Payable and this is presently being completed. It is expected that this audit will be reported to the next Board meeting.
- 1.3 The 2014/15 audit plan consists of two audits; the work to support the 2013/14 Statement of Internal Control and a review of the Payroll systems. Again, once these audits have been completed, they will be reported to the Board in due course.

Recommendations

Members are asked to:

- i. Consider the information attached and discuss any other matters of interest with the Head of Internal Audit & Risk Management.
- ii. Approve the audits included within the 2014/15 audit plan.

Designation: Head of Internal Audit & Risk Management, Highland Council

Date: 23rd April 2014

Ref:

Background Papers

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AUDIT REPORT SUMMARY

Report Title

Matters Arising from the Statement of Internal Control 2012/13

Report No.	Type of Audit	Issue Date	
AT19/002	Systems	Draft Report	29/11/13
		Final Report	22/04/14

1. Introduction

1.1 In order to inform the Head of Internal Audit & Risk Management's annual Statement of Internal Control, work was undertaken to examine the systems of internal control operated within the Assessor's Department. This consisted of:

- (i) A high level review of the Assessor's Department system of internal control by way of an evidence-based checklist comprising six key areas:
 - Control environment.
 - Identification and evaluation of risk and control objectives.
 - Information and reporting.
 - Control processes.
 - Monitoring and corrective action.
 - Assessment of whether the key controls have been applied during the year.
- (ii) A review of the key controls operated within those financial systems which were not subject to a detailed audit review during the year (Creditors, General Ledger, Income, Payroll and Budgetary Control). The areas examined included:
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups and security of data.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected. This sample covered the Council, Pension Fund and organisations which use some or all of the Council's financial systems (Assessor's Department, Northern Constabulary, Highland & Islands Fire & Rescue Service and HITRANS).

A separate audit of the Debtors system was undertaken for 2012/13.

- (iii) A follow-up review to ensure that the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

2. Main Findings

2.1 The main finding of the review is that the systems of internal control are reliable and this was reported in the 2012/13 Statement of Internal Control. However, there were some matters identified where action could be taken by management to improve the internal controls as follows:

- (i) Internal Control Checklist
There were no issues identified beyond that identified in the follow-up review at (iii) below.
- (ii) Review of Key Controls
One payment examined totalling £12,390 was only supported by the supplier invoice and there was no official order. In addition, this supplier has been paid a

total of £104,206 over the past four years, without any official tenders being obtained. As a result both Financial Regulations and Contract Standing Orders were not adhered to for this transaction.

Payroll reports are not provided to allow checks to be performed over the validity and accuracy of staff costs.

(iii) Follow-up Review

The previous audit report stated that whilst the Assessor's Department has all necessary procedures, a number of these had not been reviewed recently to ensure that these accord with best practice and legislation. Some of these have been revised but the following remain outstanding:

- The Employee Code of Conduct and Fraud and Corruption policy requires updating in light of the requirements of the Bribery Act 2010;
- Contract Standing Orders have not been updated to reflect changes in the EU tendering limits and revisions to the Public Contracts (Scotland) Regulations 2012;
- The local Code of Corporate Governance could be improved by following the framework set out by CIPFA/ SOLACE.

3. Conclusion

3.1 Other than the key control and follow up review weaknesses identified, there are generally good controls in place at the Assessor's Department, therefore it has been concluded that there are adequate and effective systems of internal control operating, which can be improved by carrying out the recommendations in this report. As a result, this report contains three medium priority grade recommendations.

3.2 The recommendations have been accepted by management, with the agreed actions due to be completed by 30 September 2014.

4. Audit Opinion

4.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

The Action Plan contains **3** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.
 Important issues that managers should address and will benefit the Organisation if implemented.
 Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	0
Low	3
Total recommendations	3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Medium	An invoice was paid for the sum of £12,390 but was not supported by an official order. In addition, the supplier concerned had been paid £104,206 over the last four years without any tendering arrangements being made. Therefore, this transaction breached both Financial Regulations and Contract Standing Orders.	(1) All purchases should be made using one of the approved purchasing methods, either Pecos or purchase card. (2) Where applicable, the requirements of Contract Standing Orders should be followed where the sums involved exceed the requirements for formal tendering.	All purchases shall be made in terms of the Board's Financial regulations. Recommendation agreed.	Assessor Assessor	Immediate effect. Immediate effect.
3.2.2	Medium	No information is provided to the Assessor to allow for payroll costs to be checked to ensure that these are accurate.	Detailed staff cost information from the Council's Finance Service should be provided to Budget Holders on a regular basis to allow periodic checks to be made.	Monthly detailed payroll costings will be provided	Service Finance Manager	30/04/14

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3	Medium	Some of the Assessor's policies still require updating.	<p>There is a need to review and update the Assessor's policies to ensure that these reflect best practice and recent legislation. In particular:</p> <ul style="list-style-type: none"> The Employee Code of Conduct and Fraud and Corruption policies should be amended to address the requirements of the Bribery Act 2010; When next revised, the local Code of Corporate Governance should utilise the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government' which sets out a framework to assist organisations in reviewing their governance arrangements and how they can demonstrate compliance with the principles of good governance. Contract Standing Orders require updating to reflect changes to the EU tendering thresholds, and revisions to the Public Contracts (Scotland) Regulations 2012. 	All policies mentioned shall be updated.	Assessor	30/09/14

AUDIT REPORT SUMMARY

Report Title

Council Tax and NDR Valuation Arrangements

Report No.	Type of Audit	Issue Date	
AT13/002.bf.bf	Systems	Draft Report	22/07/13
		Re-draft Report	08/04/14
		Final Report	23/04/14

1. Introduction

- 1.1 This report records the findings of an audit review of the Highlands and Western Isles Assessor's valuation arrangements for Council Tax (CT) and Non-Domestic Rates (NDR) establishments was undertaken as part of the annual audit plan for 2012/13. As at 31 March 2013, there were 120,798 properties on the CT list and 17,364 NDR establishments on the Valuation Roll (VR).
- 1.2 The Assessor is responsible for the valuation of all domestic and non-domestic properties for local taxation purposes. Valuation of NDR properties is normally undertaken every five years; the last one was undertaken during 2010. Generally, Council Tax valuation bands remain unchanged unless the property is sold.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 Relevant properties are identified and included in the valuation roll.
- 2.2 Properties included on the valuation roll are given the correct rateable value.
- 2.3 Only valid amendments are made to the valuation roll.
- 2.4 All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was substantially achieved. Checks to the Valuation Roll (VR) or the Council Tax (CT) list are undertaken during the course of processing independent records, such as building control or land registry notifications, which cover properties subject to sale, alteration, construction or where a valuer has become aware of a change. All relevant notifications must agree to a property reference number in order to record the transaction. If this is not possible, a survey request is raised in order to value and record on either the VR or CT list, as appropriate. However, no independent records exist for long standing properties which have not been subject to change. As such, periodic checks to independent records are not performed on this group of properties.

Targeted checks are undertaken for areas of concern, such as properties with a licence to sell alcohol, all properties with a G or H band and properties with a correspondence addresses linked to the Highland area.

- 3.2 This objective was substantially achieved. A sample of twenty CT and ten NDR valuation sheets were examined. Twenty seven were undertaken by a qualified valuer and the remainder were completed by technicians. Of these, two valuations were countersigned by a qualified valuer and for one, the valuer had initialled and recorded the Council Tax band on the property valuation sheet.

3.3 The objective was partially achieved as the present computer system is not able to produce input control sheets to facilitate control total checks. The Assessor & ERO (previously Depute Assessor & ERO) acknowledged the risk of omission, but considered this to be negligible due to the checking processes conducted in (3.1) above.

In respect of valuation changes, a sample of twelve was examined: six Council Tax and six NDR properties and this showed that independent checks are performed to ensure the amounts recorded on the input sheet agreed to the CT/Valuation list

3.4 No work was undertaken in this area as the process has changed. The Assessors' record is the primary record and data files are transferred electronically to the Council on a weekly basis.

4. Conclusion

4.1 It is recognised that there is an established system of controls in place surrounding the valuation process for domestic and non-domestic properties. However, there is scope for improvement, mainly through full automation of processes in regard to data input, verification of valuation changes and the performance of periodic sample checks for properties not subject to sale, alteration or construction. As a result, there are a total of three low grade recommendations in this report.

4.2 The recommendations have been accepted by management, with the agreed actions due to be completed by 31/01/15.

5. Audit Opinion

4.2 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Total recommendations**Priority**

High 0

Medium 0

Low 3

3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1	Low	Data amendments are notified in paper based form. There is a risk that the inclusion of, and corresponding valuation, of all relevant properties on the VR/CT list have been correctly identified and recorded.	To strengthen controls over the inclusion of properties subject to alteration or construction on the VR/CT list, it is recommended that steps are taken to automate the transfer of building control records direct to the Assessor.	Agreed	Assessor	31/01/15
3.2	Low	From a sample of thirty, one valuation had not been fully signed off as authorised by a qualified valuer.	It is recommended that all valuation sheets completed by unqualified staff are supported by a full signature provided by a qualified valuer.	Agreed	Assessor	Immediate
3.3	Low	There was no evidence to demonstrate that Valuation notices were checked by the valuer after being processed.	In the circumstances where the valuer has requested sight of the processed Valuation Notice, the corresponding NDR input sheet should be signed and dated by the valuer after the review has taken place.	Agreed	Assistant Assessor	31/05/14

Internal Audit Opinion

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Reasonable Assurance	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.